

STATEMENT OF
HERMAN J. COHEN, ACTING DIRECTOR GENERAL OF THE FOREIGN SERVICE
AND ACTING DIRECTOR OF PERSONNEL, DEPARTMENT OF STATE
BEFORE THE
HOUSE POST OFFICE AND CIVIL SERVICE COMMITTEE
ON SUPPLEMENTAL RETIREMENT SYSTEMS
APRIL 25, 1985

The Secretary of State has asked me to represent him at these hearings on designing supplemental retirement systems for new Federal employees covered by Social Security. We appreciate this opportunity very much. Retirement provisions are an essential part of any personnel system, but they are especially important for the Department of State which uses retirement mechanisms to achieve special, statutorily-mandated objectives.

My comments will thus be directed primarily towards Foreign Service considerations. But I do want to emphasize our strong commitment to the idea that the supplemental system must be equitable for Civil Service employees as well. We run a dual Civil Service/Foreign Service personnel system, as mandated by the Foreign Service Act of 1980, and are equally concerned with the well-being of both groups of employees.

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There are currently 13,700 employees from all agencies participating in the current Foreign Service Retirement and Disability System (FSRDS) and about 8,300 annuitants drawing benefits. As of September 30, 1984, there were 9,424 participants and 5,330 annuitants from the Department of State.

The FSRDS differs from Civil Service retirement in a number of areas keyed to the requirements of the Foreign Service Act. In contrast to the Civil Service, our plan is administered by the Department of State and maintains its own trust fund account with the Treasury. The Foreign Service plan provides annuities for those retired mandatorily or who retire voluntarily after age 50 with 20 or more years of service. It provides a maximum replacement rate of 70% of salary compared to 80% for the Civil Service, and a constant accrual rate of 2% per year, compared to the step rate for the Civil Service.

I would like, with your permission Mr. Chairman, to submit for the record a fact sheet describing the existing retirement system.

Against this background we believe that whatever supplemental plan is adopted for all new employees covered by Social Security (including both Foreign and Civil Service) must be supplemented by payments to cover the period before Social Security benefits begin at age 62. Because we currently

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administer our own plan and will continue this administration throughout the lives of the pre-1984 employees, we are inclined to seek authority to continue to fund and administer the new Foreign Service supplemental plan separately.

Administering our own retirement plan would enable us to maintain necessary management control over this key management tool enabling us to fill our world-wide work force profile with the best available personnel. We cannot consider retirement simply as an entitlement or employee prerogative.

Our current retirement system objectives, based on the philosophy of the Foreign Service Act, are these:

- (1) To retain our best and most experienced personnel, to ensure that our nation receives the best possible representation abroad. The Foreign Service Act provides a long-career enhancing retirement plan recognizing that extended experience is indispensable to long-term policy formulation and execution.
- (2) To retire mandatorily the less competitive, as determined by management, to ensure that the highest standards of performance in overseas representation is guaranteed. The standard here is not unlimited tenure with dismissal only for cause, but rather continuous and progressively more rigorous competition and selection

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out. We have had this authority under the 1946 Act, but with the implementation of the Limited Career Extension concept and new Time-in-Class rules via the 1980 Act, the pruning of the Service to meet management needs at each level has become increasingly feasible.

--(3) To provide through early retirement an exit, other than for substandard performance, for those who are no longer able to serve abroad. The Foreign Service is an increasingly arduous and dangerous life; those who, after a long and valued career, cannot continue to meet those challenges should be able to retire voluntarily, without being selected out for substandard performance.

The Secretary, and those of us who assist him in managing the Foreign Service, believe very strongly that these objectives are sound. We believe that these objectives should guide the design of a supplemental Foreign Service retirement system for people appointed since January 1, 1984.

Why do we maintain this position?

The national interest requires that the Foreign Service be composed of dedicated, professionally trained, highly mobile people of the highest caliber. This corps of people must be able to advise the President and Secretary of State on a wide range of foreign policy issues, including those of war and

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peace. They must also represent our nation abroad.

To establish and maintain this corps, we must recruit the best and brightest young men and women from all across the United States. To do this, we need to offer an attractive and challenging career: specialized training, on-the-job experience, and advancement for those who succeed. But we must also be able to separate those who fail to measure up in competition with their peers, and must do so whenever in their career that failure to keep pace occurs. Last year 35 officers were mandatorily retired through selection-out -- essentially the same number as were promoted into the senior ranks. This aspect of our personnel system is why our system is frequently compared to the military rather than to the domestic Civil Service system.

Until now, we have been able to offer a retirement system that offers adequate minimum benefits to those who retire at or above age 50 with 20 years of service. This meets our objective of providing an exit for the less competitive, or for those who are no longer able to serve overseas.

We believe that selection-out must be retained if we are to maintain a top flight Foreign Service. In order to use the selection-out mechanism, it must continue to be accompanied by the availability of immediate retirement benefits.

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There are several reasons why this is so. Foreign Service life means repeated assignments to less developed countries, to dangerous and unhealthful posts, making heavy demands on both service members and their families. Inevitably, some Foreign Service personnel develop health problems or "burn out", and cease to be available for duty world-wide or to produce at their former levels. Such personnel must leave the Foreign Service, but with recognition for service rendered and difficulties borne. This is accomplished by selection-out coupled with voluntary retirement at age 50 with 20 years of service. If those selected-out could not receive adequate retirement benefits, the Foreign Service would be an unreasonably harsh system. We could not, for example, require people to leave the Service at an earlier age than normal, and then reduce their retirement benefits because of their age. Nor can we afford to operate a system where the only early retirement is through selection-out.

Those who have expended their personal resources in the national interest must have an honorable early exit through voluntary retirement. After age 50 for example, more than half our Foreign Service personnel are unavailable for world-wide duty because the employee or a member of the family can no longer qualify for a full medical clearance. They can no longer meet the physical requirements of the job.

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The Foreign Service retirement system is an integral part of the Foreign Service personnel system. Therefore we believe that either the supplemental Foreign Service retirement system should be provided for in the Foreign Service Act, but closely aligned with the supplemental system for the Civil Service; or alternatively, and at a minimum, the Foreign Service should be covered in a government-wide supplemental system that compensates employees for the fact that Social Security benefits will not begin until age 62. We will be able to make a more definitive recommendation on this important issue, once the outlines of the supplemental Civil Service system are known.

In conclusion, Mr. Chairman, I am sure that you would agree that the Committee has under consideration a most important feature of the Government's compensation package. It is one that is especially important for the Foreign Service. I want to underscore the personal commitment of the Secretary to having a retirement system which is fair to employees, and which allows him to manage the Foreign Service and the Department of State effectively.

As you continue your work on this issue, I ask you to keep in mind the bravery, devotion to duty and sacrifice made by the men and women in the Foreign Service. Our people are constantly exposed to the dangers of terrorism, kidnapping,

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bombings and mob action. In just the last two years, twenty one Americans assigned to Foreign Service posts abroad were killed by hostile action.

In a world in which the threat of terrorism is mounting, and America is called upon to deal with a difficult, dangerous and debilitating array of problems, it is the Foreign Service which is out there on the front line.

I would be happy to elaborate on my remarks, or to answer any questions you may have.

FACT SHEET

FOREIGN SERVICE RETIREMENT AND DISABILITY SYSTEM

PARTICIPATION: Foreign Service employees of the Department of State (9424), Agency for International Development (2045), United States Information Agency (1800), the Department of Agriculture (285) and the Department of Commerce (137).

BENEFITS: Immediate annuity for mandatory retirement (including time-in-class) for employees at top grades, and for voluntary retirements after age 50 with 20 years service. Deferred annuities at age 60 (with exceptions) with minimum of five years service credit.

FORMULA: 2% X high-three year average salary X years of service credit. Disability retirement based on minimum of 20 years of service. Creditable service limited to 35 years, except for sick leave credit. 50% additional credit for service at unhealthful posts provided the participant did not receive a salary differential for such service.

REFUNDS: Upon resignation, refund of employee's contributions, usually with interest at least 3% per year. Upon selection out for those who do not qualify for an immediate annuity (a) gratuity of 1/12 of a years salary for each year of service and, (b) refund of employee's contribution.

CONTRIBUTIONS: 7% by both employer and employee. Employer also pays interest on unfunded liability and on annuity attributable to military service. Government also authorized to amortize unfunded liability created by new or liberalized benefits over 30 years, and to finance the balance of the normal cost not met by employee and employer contributions.

COVERAGE: Active employees: 13,762
Covered payroll: \$542,519,800

ANNUITANTS: Retirees (FY 84): 476
Average length of service (73-82): 32 1/3 years
Average age at retirement: 55 3/4 years
Average annuity at retirement: \$25,433

Total annuitants and survivors: 8,345
Total annualized payments: \$212,772,228
Average annuity: \$25,497

Non-disability retiree annuitants: 6,799
Total annualized annuity: \$189,021,784
Average annuity: \$27,801

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Disability retiree annuitants: 370
Total annualized annuity: \$8,743,181
Average annuity: \$23,630

Non-children survivors: 981
Total annualized annuity: \$14,497,693
Average Annuity: \$14,778

Children survivors: 195
Total annualized annuity: \$509,587
Average annuity: \$2,613

NORMAL COST:	DYNAMIC	STATIC
Employee:	7%	7%
Employer:	40.4%	20.9%
UNFUNDED LIABILITY:	\$6.186 billion	\$3.510 billion
NET PLAN ASSETS:	\$1.636 billion	\$1.636 billion

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The special eligibility provisions are reflected in the actual retirement experiences of the various employee groups. The federal employees in the District's retirement system have retired the earliest--years before social security benefits would be available at age 62. The table below shows the experiences of the employee groups for fiscal year 1983 which agency officials considered typical of recent historical experience. Data on general civil service employees is shown for comparison purposes.

<u>Employee group</u>	<u>Average age at retirement</u>	<u>Average years of service</u>
Secret Service Uniformed Division	46	25
Secret Service agents	not available	not available
Park Police	48 ^a	23.4 ^a
Air traffic controllers	51.7	30.7
Central intelligence officers	52.8	29.3
Law enforcement officers/ firefighters	54.1	26.4
Foreign Service officers	55.7	27.0
General civil service employees	60.9	28.6

^aAverage of last 10 years.

Options for employees covered by
special early retirement provisions

In designing the new retirement system to supplement social security benefits, the Congress may decide to treat new employees currently covered by special early retirement provisions like general civil service employees, in which case no special provisions would be needed. On the other hand, if the Congress wishes to continue early retirement eligibility for these new employees, a means of providing higher benefit levels at earlier ages than allowed for other employees must be incorporated into the new system. Alternative benefit formula designs for these special provisions are:

1. Provide the same benefit accrual rate as for general civil service employees but with no reduction for early retirement age. In our report on the features of

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nonfederal retirement programs,⁴ we reported that most pension plans permit employees to retire at reduced benefits before they fulfill the requirements necessary for the payment of full benefits. The Congress could provide benefits without reductions at earlier ages for the employees covered by special provisions.

2. Provide a higher benefit accrual rate than that provided general employees. Under this alternative, the benefit formula for these employees would have a higher accrual rate for each year of service than the rate used to compute benefits for regular civil service employees. This would provide greater benefits at earlier ages for the covered employees.
3. Provide supplemental benefit payments in addition to civil service benefits until age 62 when social security benefits are available. In our report on the features of nonfederal retirement programs, we reported this is provided for in many nonfederal pension plans.
4. Provide a more generous thrift (savings) plan than the plan available to general civil service employees. This alternative assumes that the design of the new retirement program will include a thrift plan. A capital accumulation plan, such as a thrift plan, is a typical part of nonfederal retirement programs. Under thrift plans, employers help employees save for retirement or other needs by matching some portion of the employees' contributions. A majority of employers with thrift plans match at least 50 percent of employee contributions up to a specified level. For employees covered by special retirement provisions, the thrift plan could provide a higher rate of employer matching than the rate for regular civil service employees thereby enabling them to accumulate a sufficient amount to afford earlier retirement. If the thrift plan is authorized under section 401(k) of the Internal Revenue Code, the burden of employee contributions would be reduced by deferring taxes on them.

We did not consider the alternative of withdrawing these employees from social security in view of the Congress' decision in enacting the 1983 Social Security Amendments that all new federal employees would be covered.

⁴Features of Nonfederal Retirement Programs (GAO/OCG-84-2, June 26, 1984).

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As requested by your offices, we did not obtain agency comments on this report. We are sending copies of this report to the Directors of OPM, the Central Intelligence Agency, and the Secret Service; the Secretaries of the Interior, Treasury, and Transportation; the Administrator of the Federal Aviation Administration; and the Mayor, District of Columbia. We will also send copies to other interested parties and make copies available to others upon request.

W. J. Anderson

William J. Anderson
Director

AGENCY POPULATION

ON BOARD

MALES = 62%
FEMALES = 38%

FEMALE RETIREES

FY 84

26% OF ALL RETIREES WERE FEMALES
25% OF FEMALE RETIREES WERE GS-07 AND BELOW
53% OF FEMALE RETIREES WERE GS-09 AND BELOW

FY 83

24% OF ALL RETIREES WERE FEMALES
33% OF FEMALE RETIREES WERE GS-07 AND BELOW
47% OF FEMALE RETIREES WERE GS-09 AND BELOW

QUESTIONS AND ANSWERS REGARDING
TESTIMONY BEFORE POST OFFICE AND CIVIL SERVICE COMMITTEE

Question:

Attrition Rates.

Answer:

Agency Attrition

Total = 4%

Officers = 2%

U.S. Government

Total = 14%

State = 11%

Justice = 8%

Question:

How does one become eligible for Foreign Service Retirement System?

Answer:

By career appointment in the Foreign Service. This includes Foreign Service Officers and Foreign Service Staff. The only uncovered employees assigned to the State Department are GS and Foreign National employees.

Question:

Is there a restriction on the continuous length of service that a Foreign Service employee can perform in the United States and is this rule enforced. If the latter is enforced, what is the employee's status?

Answer:

Under current Department rules, the status of a Foreign Service employee is reviewed if they remain in the U.S. beyond eight years. This rule has not previously been enforced, but the Department claims they will be enforcing this rule.

When the rule is enforced, the employee must resign or be converted to a GS status and thus would no longer be covered under the Foreign Service Retirement System.

QUESTIONS AND ANSWERS REGARDING
TESTIMONY BEFORE POST OFFICE AND CIVIL SERVICE COMMITTEE

Question:

What are the differences in the Foreign Service Retirement System and CIARDS?

Answer:

See Attachment "A" for comparisons.

Question:

What are the differences for prior military service (Catch 62) under the Foreign Service Retirement System and CIARDS.

Answer:

Foreign Service Act was passed prior to Social Security coverage for military personnel, which became effective 1 January 1957.

Prior to passage of CIARDS law, Civil Service Retirement System was modified to provided offsets for post 1956 military coverage.

In 1964, when the CIARDS law was passed, it incorporated these same provisions for post 1956 military service.

In 1976, when the Foreign Service act was amended, pressure was created by the Congress to incorporate offset provisions for military service. This in fact happened, and State argued effectively to have the provisions made prospective from 1976.

Thus, the difference between CIARDS and Foreign Service is an offset for post-1956 versus post-1976 military service.

Question:

Are there any retirement benefits in CIARDS not provided for in Foreign Service?

Answer:

No, but Agency non-CIARDS types are provided a relocation benefit upon retirement whereas GS types at the State Department are not provided the same benefit.

QUESTIONS AND ANSWERS REGARDING
TESTIMONY BEFORE POST OFFICE AND CIVIL SERVICE COMMITTEE

Question:

Is tenure in the Foreign Service Retirement System vested or is Foreign Service Retirement subject to the approval of Secretary of State?

How does this apply to FBI, Fire Fighters, etc.?

Answer:

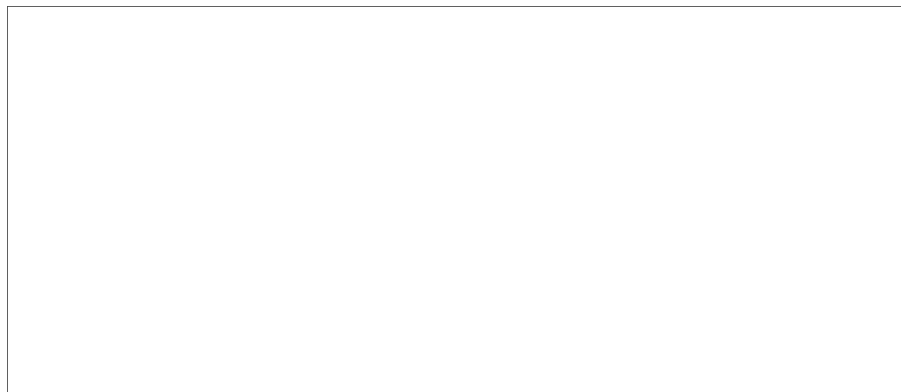
Secretary of State must approve all Foreign Service retirements just as the Director does for CIARDS. For law enforcement officers, fire fighters, air traffic controllers, Office of Personnel Management administers their retirement's just as any civil servant.

Question:

What is the percentage of Agency Civil Service retirees who have had overseas service with the Agency?

Answer:

During FY80 thru FY84 approximately 41% of CSRS employee had some form of official overseas service..



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<u>RETIREMENT SYSTEM</u>	<u>EMPLOYEE CONTRIBUTION (% OF PAY)</u>	<u>OPTIONAL RETIREMENT AGE/SERVICE REQUIREMENTS</u>	<u>MANDATORY RETIREMENT AGE</u>	<u>BENEFIT ACCRUAL FORMULA</u>	<u>INVOLUNTARY RETIREMENT</u>	<u>DEFERRED ANNUITY</u>
CIARDS	7%	50 w/20 yrs	60 if SIS-03 or below 65 if SIS-04 or above (DCI may extend service for not more than 5 yrs	2% for all yrs of svcs. up to maximum of 70% of Hi- Three Average Salary	Annuity payable if required at discretion of the DCI if; any age w/25 years svcs; or age 50 w/20 years svcs, in either case, must have 10 yrs Agency svcs of which 5 yrs were qualifying svcs.	An employee who is separated before becoming eligible for an immediate annuity but with 5 yrs or more of service may elect to leave his contributions in the Retirement fund and receive an annuity at age 62.
Foreign Service	Same	Same	65	Same	Involuntarily retired at any age w/immediate annuity when selected out as Senior FSO or FSO class 1. Class 2 and below, if not promoted within specific period, will be retired when meeting the 50/20 criteria.	Same criteria; eligible at age 60.